

**FILED**

**DEC 17 2014**

**SECRETARY, BOARD OF  
OIL, GAS & MINING**

**BEFORE THE BOARD OF OIL, GAS AND MINING  
DEPARTMENT OF NATURAL RESOURCES  
STATE OF UTAH**

In the Matter of the Petition by the Division of  
Oil, Gas and Mining for an Order:

- (1) Authorizing the Division to forfeit and use the funds established as surety for the State 2-23 and State 2-43x wells to complete plugging and reclamation of the lands affected by the wells;
- (2) Authorizing the Division to take other action necessary to recover from GENESIS PETROLEUM US INC. any and all costs associated with the plugging and reclamation of the State 2-23 and State 2-43x wells; and
- (3) Authorizing any other action the Board deems reasonable and appropriate.

**FINDINGS OF FACT,  
CONCLUSIONS OF LAW,  
AND ORDER**

Docket No.: 264-04  
Cause No.: 2014-030

This matter came on for hearing before the Utah Board of Oil Gas and Mining ("Board") on December 10, 2014 at 10:30 a.m. in the auditorium of the Utah Department of Natural Resources Building, 1594 West North Temple Street, Salt Lake City, Utah. The following Board Members were present and participated in the hearing: Gordon Moon, Kelly L. Payne, Michael R. Brown, Susan S. Davis, Chris D Hansen, Carl F. Kendall, and Ruland J. Gill Jr., Chair. Michael Johnson, Assistant Utah Attorney General represented the Board.

The Division of Oil, Gas and Mining ("Division") was represented by Steve Alder, Assistant Utah Attorney General, and Clinton Dworshak, Enforcement Specialist for the Division testified.

A Stipulation for Dismissal and Release, and Assignment of Claim ("Stipulation") between the Division and the Bank of the West ("Bank") was filed by the Bank in lieu of a Response to the Notice of Agency Action. Martin K. Banks, of Stoel Reaves LLP appeared on behalf of the Bank. No other persons appeared or participated in the hearing.

The Board having considered the testimony and exhibits admitted and being fully advised makes the following:

**Findings of Fact**

1. On October 1, 2008, Genesis Petroleum US Inc. ("**Genesis**"), by a transfer from Integrated Energy, LLC and approved by the Division, became the operator of the following wells: 1) State 36-13 located in Carbon County, Utah, 2) Grassy Trail 36-2 (also referred to as State 36-2) located in Carbon County, Utah, 3) State 2-43x located in Emery County, Utah, and 4) State 2-23, located in Emery County, Utah (full legal descriptions of the well locations are on file with the Division).

2. Prior to the approval by the Division of the transfer to Genesis, Genesis furnished the Division with two bonds, in the form of two certificates of deposit issued by the Bank. One of the certificates (#003525790), for an amount of \$223,856, covered the State 36-13, Grassy Trail 36-2 (State 36-2), and State 2-43x wells. The other certificate (#003525857), for an amount of \$30,000, covered the State 2-23 well.

3. The State 36-13 and the Grassy Trail 36-2 (State 36-2) wells were plugged by Genesis in June 2009 after it received notice that the lease covering those wells had been terminated for lack of production.

4. On October 29, 2009, given that Genesis had plugged and abandoned the State 36-13 and Grassy Trail 36-2 (State 36-2) wells, the Division authorized the Bank to reduce the certificate of deposit #003525790 from \$223,856 to \$70,754. This certificate of deposit, with the reduced amount, remained in place to cover the State 2-43x well. The certificate of deposit (#003525857) remained unchanged at \$30,000 to cover the State 2-23 well.

5. On February 8, 2011, the Utah School Institutional Trust Lands Administration (“Trust Lands Administration”) notified Genesis that the lease for the State 2-43x well had expired on May 31, 2009, because the well had not produced in paying quantities in violation of the lease terms. In addition to providing notice that the lease had expired, the Trust Lands Administration also instructed Genesis to “. . . immediately file paperwork with the Division of Oil, Gas and Mining, and commence plugging operations under the Division’s rules and contact the agency to make arrangements for subsequent reclamation to return the disturbed lands to its [sic] natural state.”

6. The State 2-43x and the State 2-23 wells (together, the “Subject Wells”) have not been plugged. The most recent date of continuous production for the State 2-43x well was July 1, 1993. The State 2-23, an injection well, has not injected fluid in nearly five years. Therefore, the Subject Wells are not contributing to the production of hydrocarbons and are out of compliance with Utah Admin. Code R649-3-36 requiring plugging of wells that have been non-active or non-productive, in violation of that Rule.

7. Genesis has not renewed its corporate filing, is no longer operating in Utah, and is unable to conduct the required plugging and site restoration.

8. Genesis has failed to conduct the required plugging and site restoration on the Subject Wells.

9. The State 2-43x well has not produced hydrocarbons for more than five years, and the State 2-23 well has not contributed to the production of hydrocarbons in nearly five years. Allowing the wells to remain unplugged poses a safety risk.

10. Pursuant to the Stipulation between the Bank and the Division filed in this matter, the Bank has agreed *inter alia* to pay to the Division the costs invoiced to the Division of plugging and restoration of the Subject Wells, in an amount not to exceed the amounts held in the certificate of deposit accounts (collectively, \$100,754.00), within thirty (30) days after (a) completion of all of the plugging and restoration work, and submittal to the Bank of all those associated costs invoiced to the Division, and (b) issuance by the Board of an Order in the form attached to the Stipulation releasing the Bank and others from liability and dismissing all claims by the Division against the Bank.

### **Conclusions of Law**

1. Notice of the hearing action was provided by the Division pursuant to its authority to enforce the provisions of the Utah Oil and Gas Conservation Act (“**Act**”), Utah Code §§ 40-6-1 to -21, and the provisions of Utah Administrative Code R649 (“**Rules**”).

2. Pursuant to Utah Code §§ 63G-4-204 to -209, the hearing before the Board was conducted formally.

3. Utah Code § 40-6-5(1) confers jurisdiction over this matter to the Board and empowers the Board to enforce the provisions of the Act and the Rules.

4. Utah Code § 40-6-5(3) authorizes the Board to regulate “all operations for and related to the production of oil or gas including: (i) . . . plugging of wells; and (ii) reclamation of sites[.]”

5. Genesis as the operator has refused and is unable to conduct the plugging and site restoration required for the Subject Wells.

6. Utah Admin. Code R649-3-1.16.4.2 authorizes the Board to order the Division to “[u]se funds . . . to complete the plugging and restoration of the well or wells to which bond coverage applies.”

7. Division is to complete and pay for the plugging and restoration work for the Subject Wells and to use all funds subsequently paid pursuant to the Stipulation as reimbursement for the costs it paid for the plugging and restoring the Subject Wells.

8. In the event the amount of the Bank’s payment contemplated under the Stipulation is insufficient to reimburse the full cost paid by the Division for the plugging and restoration, the Division may nevertheless complete or authorize the completion of plugging and restoration. Utah Admin. Code R649-3-1.16.5.

### **ORDER**


1. The Bank’s payment contemplated under the Stipulation, reflecting the amounts previously held in the above-referenced certificate of deposit accounts #003525857 and #003525790 (\$30,000 and \$70,754 respectively), is for the benefit of the Division as reimbursement for its costs of plugging and restoring the Subject Wells and the lands affected by

the Wells, subject to the rights and obligations of the Division and the Bank as set forth in the Stipulation; and

2. The Division is to complete plugging and reclamation of the Subject Wells and the lands affected by the Wells and to use the funds received from the Bank pursuant to the Stipulation as reimbursement for its costs for the work in accordance with the terms and conditions of the Stipulation.

3. The Board shall retain jurisdiction over the parties and the subject matter of this Notice of Agency Action until the completion of the plugging and restoration of the Subject Wells, the issuance of the Board's Order dismissing the Bank with prejudice, and the payment by the Bank for the costs of the plugging and restoration work, all as provided for in the Stipulation.

Dated this 17th day of December, 2014.

  
Ruland J. Gill Jr., Chair  
Utah Board of Oil, Gas and Mining.

**CERTIFICATE OF SERVICE**

I hereby certify that on this 17th day of December, 2014, I caused a true and correct copy of the foregoing **FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER** for Docket No. 2014-030, Cause No. 264-04, to be mailed by Email or via First Class Mail, with postage prepaid, to the following:


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